

# SENATE BILL REPORT

## SB 5363

---

---

As of February 25, 2011

**Title:** An act relating to a business and occupation tax deduction for certified community development financial institutions.

**Brief Description:** Concerning a business and occupation tax deduction for certified community development financial institutions.

**Sponsors:** Senators Hobbs, Zarelli, Kline and Shin.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Insurance: 2/02/11 [DPS].  
**Ways & Means:** 2/25/11.

---

### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

**Majority Report:** That Substitute Senate Bill No. 5363 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hobbs, Chair; Benton, Ranking Minority Member; Fain and Haugen.

**Staff:** Edward Redmond (786-7471)

---

### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dianne Criswell (786-7433)

**Background:** The Business and Occupation (B&O) tax is Washington's major business tax. The tax is imposed on the gross receipts of business activities conducted within the state, and revenues are deposited in the state General Fund. The B&O tax does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are many exemptions for specific types of business activities as well as certain deductions and credits permitted under the B&O tax statutes.

A Community Development Financial Institution (CDFI) is a specialized financial institution certified by the United States Department of the Treasury to provide loans for community development purposes. A CDFI works in economically distressed markets that are underserved by traditional financial institutions. A CDFI provides financial products such as mortgage financing for low-income homebuyers and not-for-profit developers, flexible

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

underwriting and risk capital for community facilities, and technical assistance and commercial loans to small businesses in low-income areas. At present, there are 22 certified CDFIs operating in Washington State.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Recommended Substitute):** A nonprofit organization certified as a CDFI by the federal CDFI fund may take a B&O tax deduction on interest received on or after August 1, 2011, from loans issued as part of a first-time home buyers program. A nonprofit organization is defined as an organization exempt from federal income tax under 26 U.S.C. Sec. 501(c)(3) of the federal Internal Revenue Code.

**EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Substitute):** Corrects the definition of "nonprofit organization" to conform with the federal definition.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Original Bill (Financial Institutions, Housing & Insurance):** PRO: Homesight provides low-interest down-payment assistance loans to allow more low-income families to buy homes in the communities where they have ties and build financial security for their families through home equity. Through the economic downturn, Homesight maintained a delinquency rate below 2.5 percent and has had no foreclosures. Homesight recently learned from the Department of Revenue (DOR) that the second mortgage loans it provides as part of the low-income first-time homebuyer program is taxable under the state B&O tax. The exemption this bill provides is limited to 501(c)(3) nonprofit organizations that are also CDFI certified. At present, Homesight is the only nonprofit CDFI certified entity in the state that provides this service to low-income first-time homebuyers. Homesight provided additional information to DOR, so an updated fiscal note is expected which should provide a more accurate estimate of any fiscal impact the exemption would have.

**Persons Testifying (Financial Institutions, Housing & Insurance):** PRO: Steve Williams, Tom Jacobi, Homesight.

**Staff Summary of Public Testimony on Recommended Substitute (Ways & Means):** PRO: Homesight provides low-interest down-payment assistance loans to allow more low-income families to buy homes in the communities where they have ties, and build financial security for their families through home equity. Through the economic downturn, Homesight maintained a delinquency rate below 2.5 percent and has had no foreclosures. Homesight recently learned from DOR that the second mortgage loans it provides as part of the low-income first-time homebuyer program is taxable under the state B&O tax. The exemption

this bill provides is limited to 501(c)(3) nonprofit organizations that are also CDFI certified. At present, Homesight is the only nonprofit CDFI certified entity in the state that provides this service to low-income first-time homebuyers.

**Persons Testifying (Ways & Means):** PRO: Steve Williams, Tom Jacobi, Homesight.